2013 ANNUAL REPORT

Vintners Quality Alliance Ontario

Setting the standard for Ontario's wines of origin

Grape Varieties

Officers

Brian Schmidt (5)
President and Chair
(elected from Vineland Estates Winery)

Paul Speck (3)
Vice-Chair
(elected from Henry of Pelham Family Estate Winery)

Greg Berti (5)
Secretary
(elected from Andrew Peller Ltd.)

Newman Smith (6)
Treasurer
(elected from Strewn Wines)

Staff and Statutory Appointments

Laurie Macdonald
Executive Director

Barbara Dodds
Office Manager (VQA Inspector)

Susan Piovesan
Compliance and Information Officer (VQA Inspector)

Directors

Keith Bown (4)
(elected from Constellation Brands)

Jim Clark (5)
(elected from Colio Estates Winery)

Ken Douglas (4)
Past-Chair

Tony Elenis (5)
(appointed from Ontario Restaurant, Hotel and Motel Association)

Louise Engel (5)
(elected from Featherstone Estates)

Norman Hardie (4)
(elected from Hardie Wines)

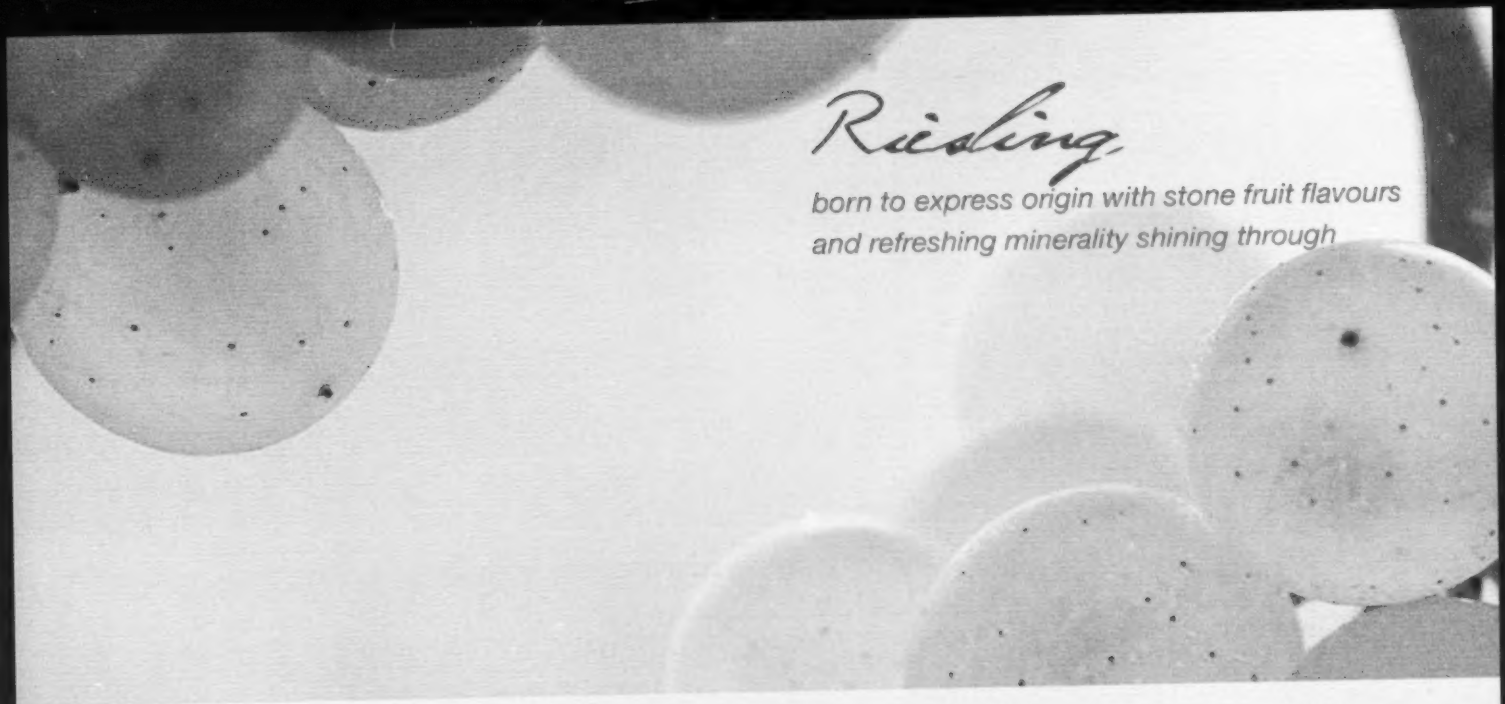
Bill Redelmeier (6)
(elected from Southbrook Vineyards)

Mary Shenstone (6)
(appointed from Ontario Ministry of Intergovernmental Affairs)

Kevin Watson (3)
(appointed from Grape Growers of Ontario)

Attendance at Board meetings:

Attendance at Board meetings: Six Board meetings were held in 2012-2013. The number of Board meetings each Director attended is indicated beside their name.



Who We Are

VQA Ontario is Ontario's wine authority that manages Ontario's wine appellation system as defined under the VQA Act of Ontario. It exercises delegated authority from the Province of Ontario to ensure label integrity and allow consumers to identify wines of origin made entirely from Ontario grown grapes.

VQA Ontario is committed to working with and on behalf of consumers and its stakeholders in industry and government to promote a better awareness of Ontario's wine regions and wines of origin.

Vision

Consumers will use Ontario's VQA appellations as their guide to buying authentic wines of origin and quality.

Mission:

Effectively manage the appellation system. Encourage continuous improvements in wine quality. Communicate the VQA assurance of origin and authenticity to consumers.

Strategic goals:

Origin, quality, authenticity

Organization Values:

Transparency and Fairness

VQA Ontario will carry out its statutory authority with transparency and fairness, and strive to uphold high ethical standards.

Responsiveness and Communications

VQA Ontario will conduct its operations openly, providing its members and the public access to information and timely responses to inquiries. It will adopt and implement appropriate policies to respect the confidentiality of its members and stakeholders. It will promote the value and benefits of VQA wines to consumers.

Firmness and Responsibility

VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

Accountability

VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

Effectiveness

VQA Ontario will strive to carry out efficient and cost-effective operations, and continue to pursue service improvements in all areas of operations.

Merlot

round, smooth and friendly, balancing red and black fruit with soft tannins

Public and Government of Ontario
Minister of Consumer Services

VQA Ontario Board of Directors

Executive Committee
Nominating Committee
Finance and Audit Committee

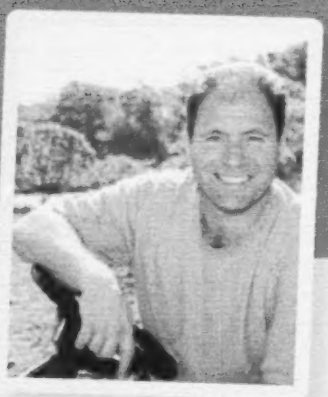
Standards Development Committee

Winery Members Input

Executive Director

Inspectors and administrative staff

Contracted Services
- Taste Panels
- Laboratory
- Audit
- Icewine Monitoring



Message from the Chair

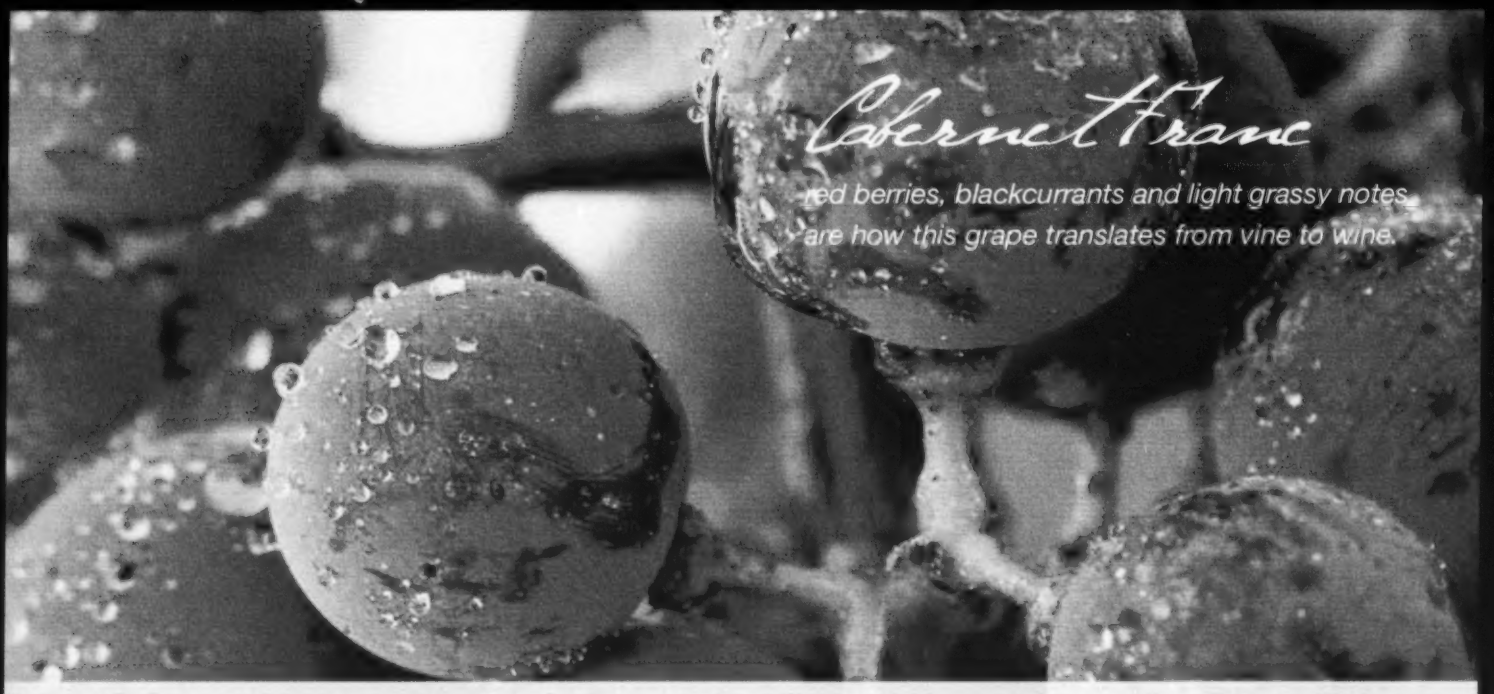
Since taking on the role of Chair at VQA Ontario last July, I have been giving much more thought to the opportunities we have to add value to our appellation system. I've been paying particular attention to how all great wine regions around the world – both old and new- always come back to appellation of origin as their core identity and biggest strength. Trends come and go in the wine business, and some are incredibly successful, but the place where the grapes are grown is still a critical and sustaining feature in premium wines. Wine origin is not a trend. The world's most iconic wines are known by the special patch of dirt that produced their grapes more than anything else.

Ontario has a great framework in place to develop this kind of reputation and value. We have identified distinct appellations and sub-appellations (perhaps with more to come?), and we consistently grow quality grapes and make wines that are unique to our place. We have a great track record of collaboration among producers, associations, trade and government to support the success of the generic VQA brand and to instill consumer confidence.

I am looking forward to maintaining this momentum and making our appellations into powerful statements of character and authenticity.

This is not a new project for VQA Ontario and we have definitely made progress over the years. Appellations are much more visible now and most engaged wine consumers are familiar with our primary appellations. A solid information base is widely available and we will continue to add to these resources. Our aim is to provide the best and most compelling information about Ontario's appellations so that wineries, growers, retailers, licensees, media and educators have all they need to explain our wines. Our next steps will be to work with all of our partners to complete the story and explain how grape origin translates to the wine in the bottle.

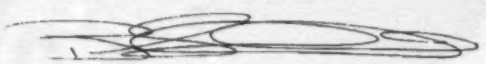
VQA Ontario renewed its strategic plan in early 2013 and you will see our renewed vision and mission inside the front cover of this report. Part of this renewal process included a survey of wineries, industry associations, sommeliers and government stakeholders. The biggest insight the survey provided is that many of our



"insiders", including VQA wineries, do not fully understand VQA Ontario's role and responsibility. It is worth restating here that VQA Ontario's role is to manage the appellation system so consumers can rely on label claims and to promote the value of appellation of origin. Its role is not to promote the commercial interests of the wine industry, individual wineries or provide member services. It is critical that we distinguish between marketing wine and wineries and promoting appellations and the appellation system.

We also need to capitalize on the recognition that VQA has been a trailblazer in building and promoting its appellation system. The concept that originated and succeeded within the wine industry in Ontario has been copied by a number of emerging wine regions in the new world and is widely respected. I believe that we are still a leader in this regard, and the model of a progressive industry-managed regulator has many benefits to all of our stakeholders. We have both the authority to maintain the integrity of our appellations and the knowledge to be responsive to industry practices. In this vein, VQA Ontario is devoting some attention to promoting a harmonized approach across Canada and benchmarking our system at the international level.

As a new Chair, I am most fortunate to have the thoughtful counsel of my fellow Board members. Their combined experience and wisdom makes our organization work. They are very committed to understanding and debating the issues before us and making decisions that are right for VQA Ontario and the appellation system and are in the best interests of our consumer. Many others contribute to VQA Ontario's success, including our full time staff and contracted service providers, many volunteers from wineries, academia, the sommelier community, and of course those in government who work with us on many levels. My thanks to all of you. I am looking forward to a productive year.



Brian Schmidt
President and Chair

Vintage report 2012

Niagara Peninsula • Lake Erie North Shore • Prince Edward County

Conditions

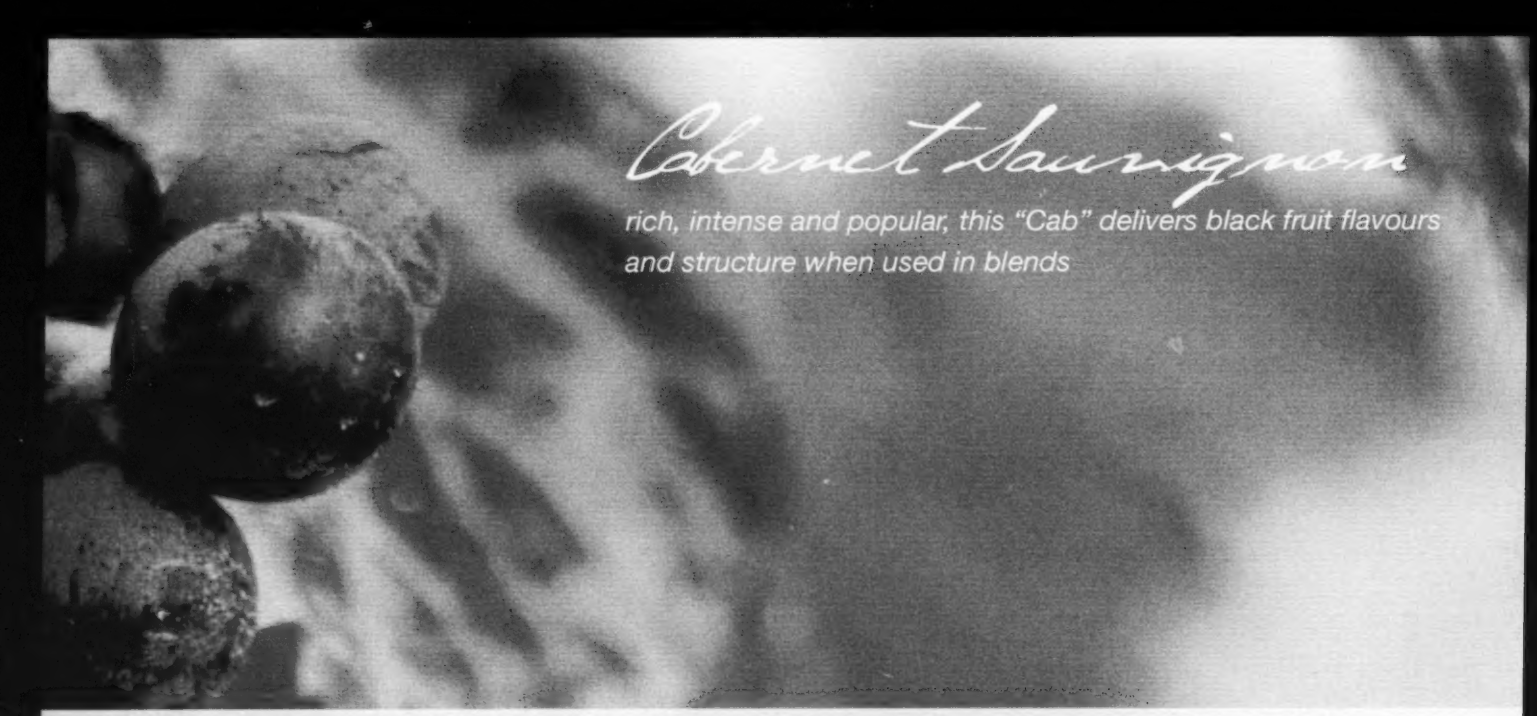
Weather conditions in winter and early spring 2012 were mild across southern Ontario and the wine growing regions. It was particularly warm in March and the vines started the growth cycle early. After a few frost concerns in April, the rest of the spring season was warmer and drier than normal and the crop was already maturing ahead of schedule by the end of June.

The weather continued to be hot and dry starting in early summer. Monthly mean temperatures in June were 3 to 4 degrees above normal across southern Ontario. July was the driest in many years in the Niagara Peninsula and the daytime high temperature surpassed 30 C on 17 days, almost triple the normal. Similar conditions prevailed in Lake Erie North Shore and Prince Edward County but Prince Edward County experienced more normal levels of precipitation. All appellations returned to hot, dry conditions in August and some areas required irrigation to combat the extremely dry weather.

All of this hot weather set the stage for a fast paced growing season, with most grapes ripening a few weeks ahead of a typical vintage. Conditions were close to perfect going into harvest.

Harvest

Harvest began as early as mid-August for some growers, especially in Lake Erie North Shore and for sparkling wine grapes. By September, the main harvest was in full swing and moving quickly. The continued warm days in September meant that most grape varieties were fast achieving ripeness and would need to be harvested in a much tighter time frame than normal. This, and the dictates of scheduling around rainy days, led to an early but very busy season and long days for most wine-makers. Harvest conditions varied among the major regions, with Lake Erie North Shore enjoying drier conditions than elsewhere, Prince Edward County receiving significant precipitation and Niagara just slightly wetter than normal.



Cabernet Sauvignon

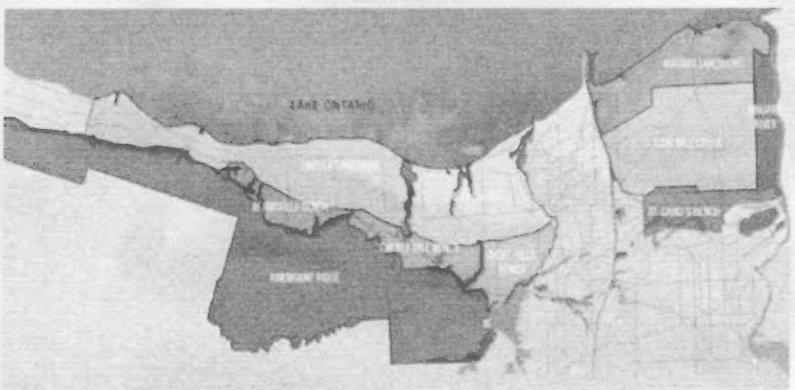
rich, intense and popular, this "Cab" delivers black fruit flavours and structure when used in blends

Harvest reports on grape quality were excellent for all regions.

Preliminary registrations for Icewine and Late Harvest grapes show 5500 tonnes of grapes netted for the 2012 season. This is a substantial increase from last year's 3650 tonnes and slowly pushing back towards production levels not seen since 2007 when a record of nearly 7000 tonnes was netted.

Wine Expectations

2012 provided wonderful conditions for wine grapes and promises to produce some exceptional wines. Virtually all grape varieties performed well in this growing season and the early and relatively short harvest window meant most grapes were picked in pristine condition. This will be reflected both in the core cool climate varietals Ontario does best and should set the stage for some interesting and less common varietals to show well.



Operations

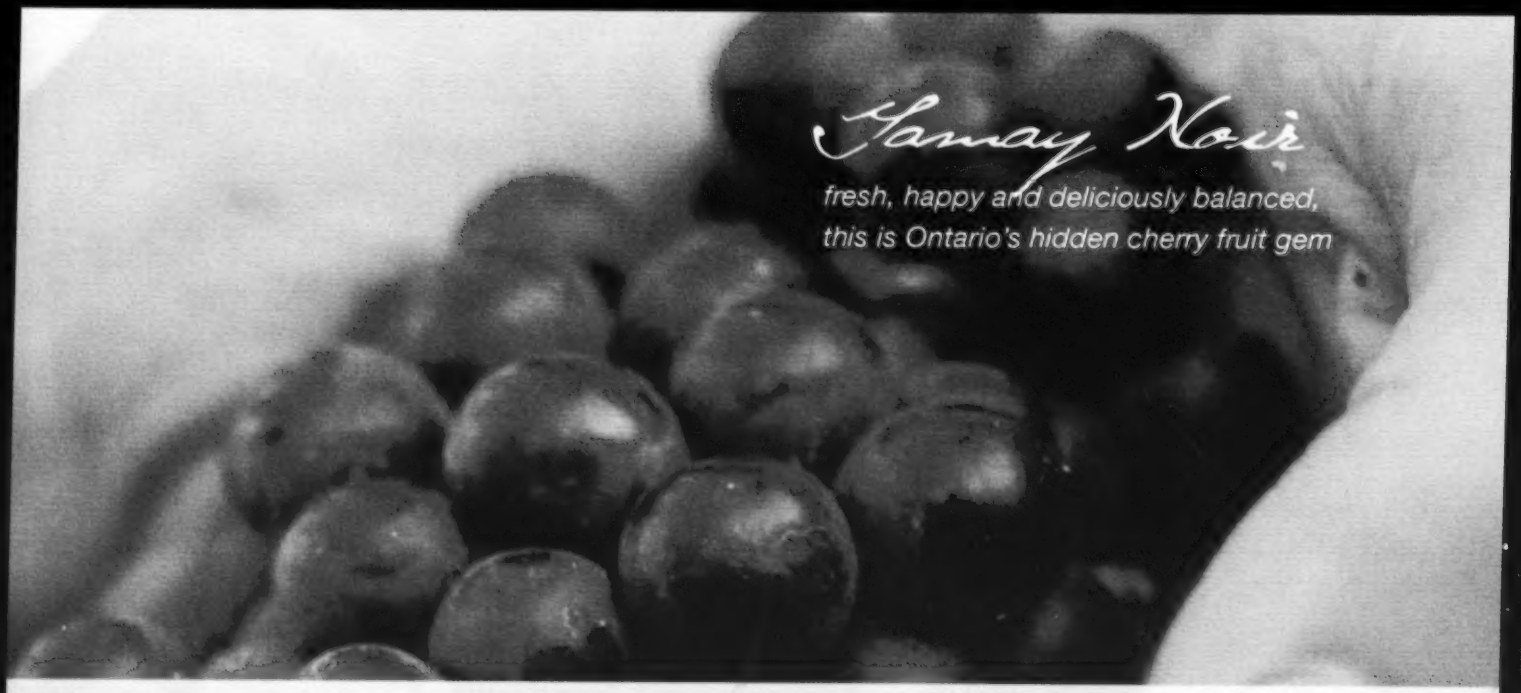
Executive Director's Report

Our core business and reason for existing is the administration of the VQA Act and Regulations. This means our operational focus is largely related to verifying compliance with the regulations including wine testing, label reviews, winery audits and inspections. For the 13th year in a row since the VQA Act was enacted, the number of wineries making VQA wines has grown, up by 9 to a total of 140 wineries. Production volume represented by all wines approved for VQA status grew slightly, up 2% from the previous year.

More statistics on wine production and VQA activities are available later in this report and on our website and we encourage you to browse through these reports and contact us with suggestions on statistics that could be of interest.

Integral to the day to day administration of the VQA appellation system is ensuring that the regulations are responsive and relevant to all of the stakeholders we serve, and continue to serve consumer interests. This past year, we continued to work on completing the changes recommended in the 2010 regulatory review and the last few changes were implemented on January 1, 2013. The past two years has been a very busy period for regulation change, and I want to thank the very capable policy staff at the Ministry of Consumer Services for their attention to detail in assessing and drafting the regulation changes and Minister Margarett Best for her personal commitment to keeping the VQA regulations current. We look forward to a productive relationship with our new Minister, Tracy MacCharles.

VQA Ontario has also become more engaged in discussions at the national level as the federal government is considering wine regulations that relate to wine standards and appellation terms. A national definition of Icewine could affect how the term is regulated in Ontario and will certainly affect its use in interprovincial and export trade. Wine standards and label terminology are increasingly the topic of trade negotiations and VQA Ontario is monitoring these developments. Global trade in wine is growing and competitive pressures are high.



It is important to both consumers and the wine industry that global agreements support a level playing field and preserve label integrity and transparency.

With the completion of a new strategic plan in early 2013, this coming year will be about determining how best to achieve those long term goals. Building value in the appellation system is a complex process with many pieces of the puzzle outside of VQA Ontario's direct control. We will have to work closely with all of our partners in this and ensure that we are creating the best possible framework to make this happen. Clearly it starts with great quality grapes made into premium wines and is followed by getting the whole communications package right.

Brian Schmidt was appointed to Chair the VQA Ontario Board of Directors last year and I am very fortunate to work with yet another committed and capable Chair. His leadership will be critical as we seek to make sure our organization meets its goals and our appellations continue to be meaningful to both the industry and consumers.

After over a decade with VQA Ontario, I can say that we are successful mostly because of the wine industry's willingness to support the VQA system, and its collective commitment to making it important. This extends far beyond wineries to a much larger group – grape growers, those in the restaurant, hospitality and retail businesses and all those who write and talk about wine. In the end it is all about the wine, but we can't forget that it is an ever expanding network of supporters that create the value in what we do.

L. Macdonald

Laurie Macdonald
Executive Director

Performance goals

Manage Ontario's wine appellation system with a focus on origin, quality and authenticity

Promote recognition and understanding of the VQA appellation system

Protect consumers through label integrity

Provide a strong transparent and credible framework for the production and labelling of wines of origin

Activity Highlights

9 new member wineries
96% overall success rate for wine approval applications
Chardonnay the top production VQA varietal wine
1051 export certificates issued
341 audits and inspections conducted
3 compliance orders issued
4 charges laid

Membership

140 wineries were registered as participants in the VQA program at the end of March 2013. These included 6 large wineries (sales of over 750,000 litres of VQA wines) 21 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 113 small wineries (sales of up to 100,000 litres of VQA wines).

Regular member communications included newsletters and bulletins. A bulletin board has been added to the secure member site to reinforce important process information and help support winemaker-directed communication.

Product Approvals

1675 applications for approval to use the VQA designation and descriptive terms regulated under the VQA Act were processed. Each wine must successfully complete comprehensive quality assurance testing including a taste test, laboratory analysis and packaging review before being certified as a wine of origin. Approvals were granted for 1615 wines, and denied for 60.

Quality

Maintaining minimum quality standards continues to be an important part of VQA Ontario's mandate. In addition to enforcing standards, VQA Ontario runs two programs to support and encourage wineries to pursue the best quality outcomes possible and exceed minimum standards. Winemakers Forums, held in all wine regions, are a venue where winemakers share experiences and best practices in an informal setting and discuss techniques that are especially successful in Ontario's unique growing

conditions. The second program provides an analysis of outcomes at the VQA tasting panel that allows wineries to benchmark themselves and gain insights into how performance might be improved. These two programs often work together with information from the tasting analysis providing topics for discussion at the Winemakers Forum. VQA Ontario continues to enjoy a strong partnership with the Cool Climate Oenology and Viticulture Institute that sees it contribute expertise to VQA Ontario's programs.

Inspections and Audits

161 routine audits were conducted during 2012 – 2013 to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to an on-site audit on a 6 to 10 month interval, depending on their compliance record. In addition, 180 random inspections were completed at the retail level, focused primarily on ensuring ongoing compliance with VQA packaging and labelling regulations. As a result of audits and inspections, follow up was conducted in 41 cases. The majority of issues addressed were minor in nature.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 3 compliance orders in relation to a winery using regulated terms without approval or failing to take corrective action within a stipulated time. Four charges were laid under the VQA Act in 2012-2013 involving two wineries who were not registered in the VQA program using VQA terms without approval.

Trade and Export Development

Along with stakeholders from industry and government, VQA Ontario continued to participate in discussions to promote recognition and acceptance of the VQA appellation standard and access to world markets.
In 2012, this included participation in the World Wine Trade Group, the APEC Regulators Forum and discussions under the Trans Pacific Partnership. VQA Ontario provides an independent certification process required by the European Union as a condition of access to its member states. Major upgrades were made to the administrative processing of European export certificates and 1051 certificates were issued for 268 wines.

Appellation Awareness

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA appellations of origin, quality standards and the value of a regulated appellation system.

Statistics

VQA Wine Production

All statistics are for the period of April 1, 2012 to March 31, 2013. These figures are based on wines approved during this period and are calculated using volumes declared at the time of submission for approval. Reported volumes may reflect wines that have not yet been released but will not reflect wines that may be finished but not yet submitted for approval. Statistics for previous years are available in past annual reports.

Production summary

Wine Category	# of Wines	Volume (9L cases)	Change from last year (volume)	Estimated grape tonnage
Table Wine	1449	2,300,266	+3%	28500
Icewine	86	66,613	-32%	3400
Sparkling	46	51,010	+3%	600
Late Harvest	27	16,397	+48%	300
Other	7	1,796	+63%	20
Total	**1,615**	**2,436,082**	**+2%**	**32,820**

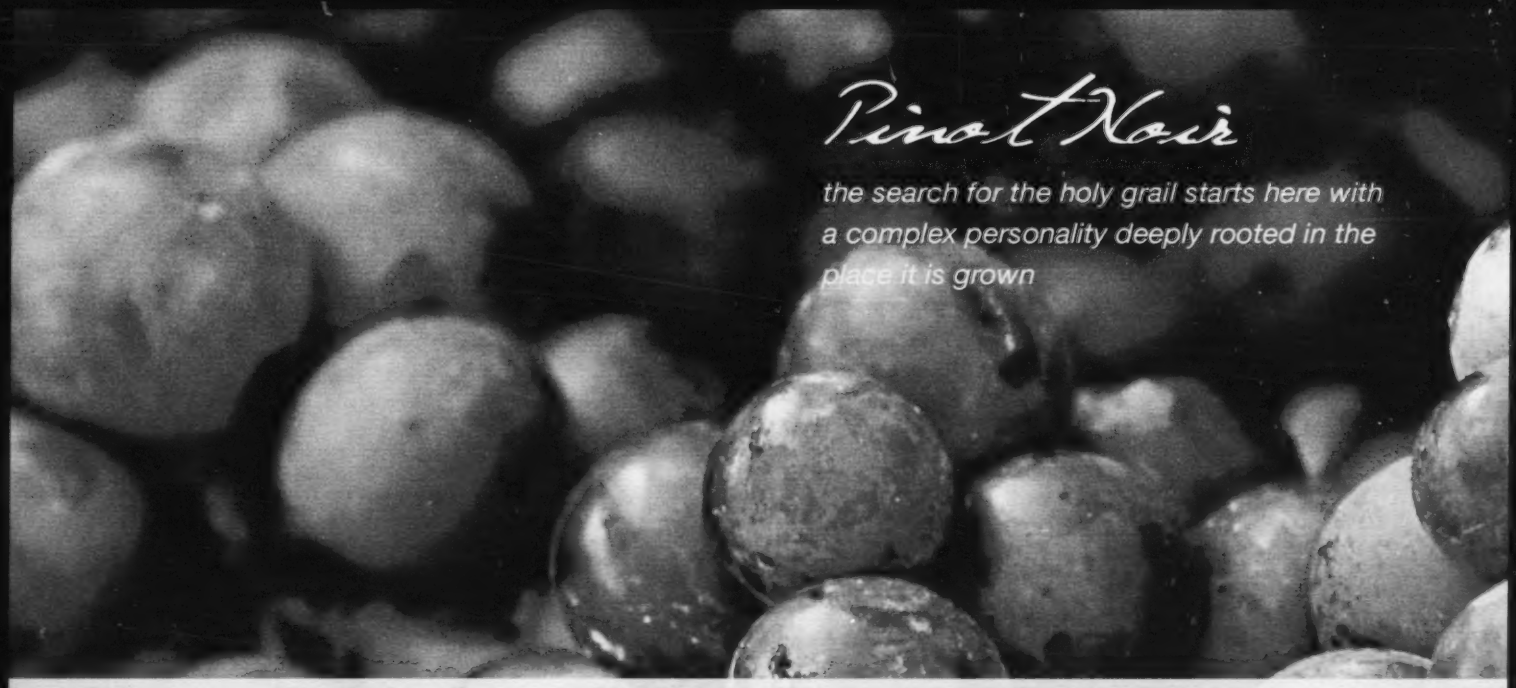
Regional and Varietal Production

Appellations

This table includes all wines labelled with the stated appellation on the principal display panel. These wines must contain at least 85% content from the stated appellation. Wines labelled with one of the ten sub-appellations of the Niagara Peninsula must contain 100% content from the stated sub-appellation.

Appellations

As declared on label	Cases (9L)	% of all VQA wines
Niagara Peninsula	1,406,045	58%
Ontario	652,728	27%
Sub-appellations of Niagara	321,856	13%
Lake Erie North Shore	30,109	1%
Prince Edward County	25,343	1%



Appellations (cont'd)

The proportion of production by appellation remains fairly steady, with a slight shift to the production of sub-appellation designated wines from 11% in 2012 to 13% in 2013. Interest in grape growing and winemaking continues to expand in areas outside of VQA designated wine regions. Grapes grown in central Ontario ranging from the Chatham-London-Norfolk regions through Grey-Bruce and across the Toronto to Trenton corridor are currently used in some Ontario designated VQA wines.

Grape varieties used in all VQA wines

Variety	% of total production
Riesling	15%
Chardonnay	14%
Cabernet Franc	12%
Merlot	12%
Cabernet Sauvignon	8%
Sauvignon Blanc	7%
Vidal Blanc	6%
Pinot Noir	6%
Pinot Gris/Pinot Grigio	5%
Baco Noir	5%
Others	10%

53% of grapes used in VQA wines are white varieties and 47% are red varieties. The top four varieties remained the same as in previous years but Riesling overtook Chardonnay as the top volume contributor to VQA wines. Vidal Blanc also lost some prominence, slipping back behind both Cabernet Sauvignon and Sauvignon Blanc.

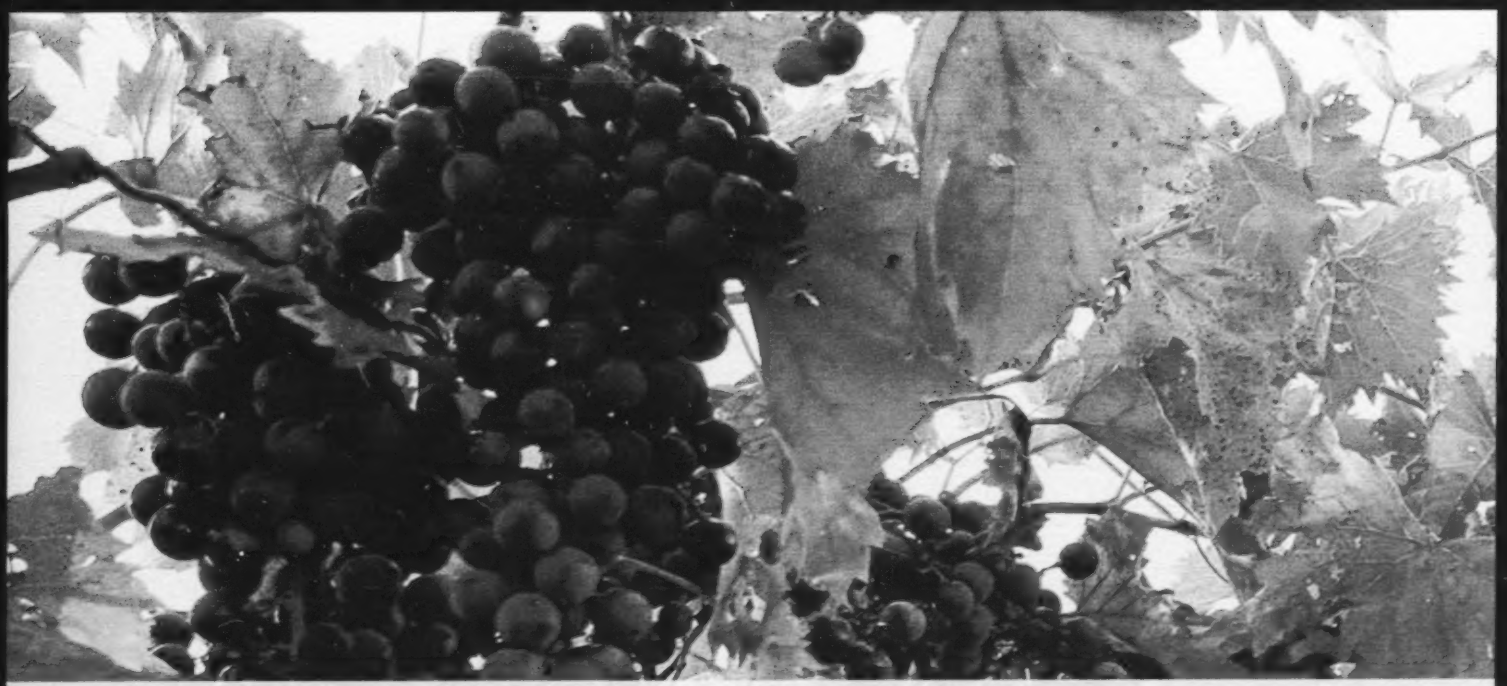


Table wines

The table wine category includes white, red and rosé wines. The overall production of table wine increased by 3% last year, similar to the 4% increase the previous year. Wines labelled with a grape variety or varieties still dominate the table wine category, accounting for over 90% of all table wines.

Table Wines

Colour		Litres	Cases (9L)
White (51%)	Varietal	10,102,477	1,122,497
	Non-varietal	401,834	44,648
	Total white	**10,504,311**	**1,167,145**
Red (46%)	Varietal	8,728,884	969,876
	Non-varietal	807,284	89,698
	Total red	**9,536,168**	**1,059,574**
Rosé (3%)	Varietal	399,746	44,416
	Non-varietal	262,158	29,129
	Total rosé	**661,904**	**73,545**

Baco Noir

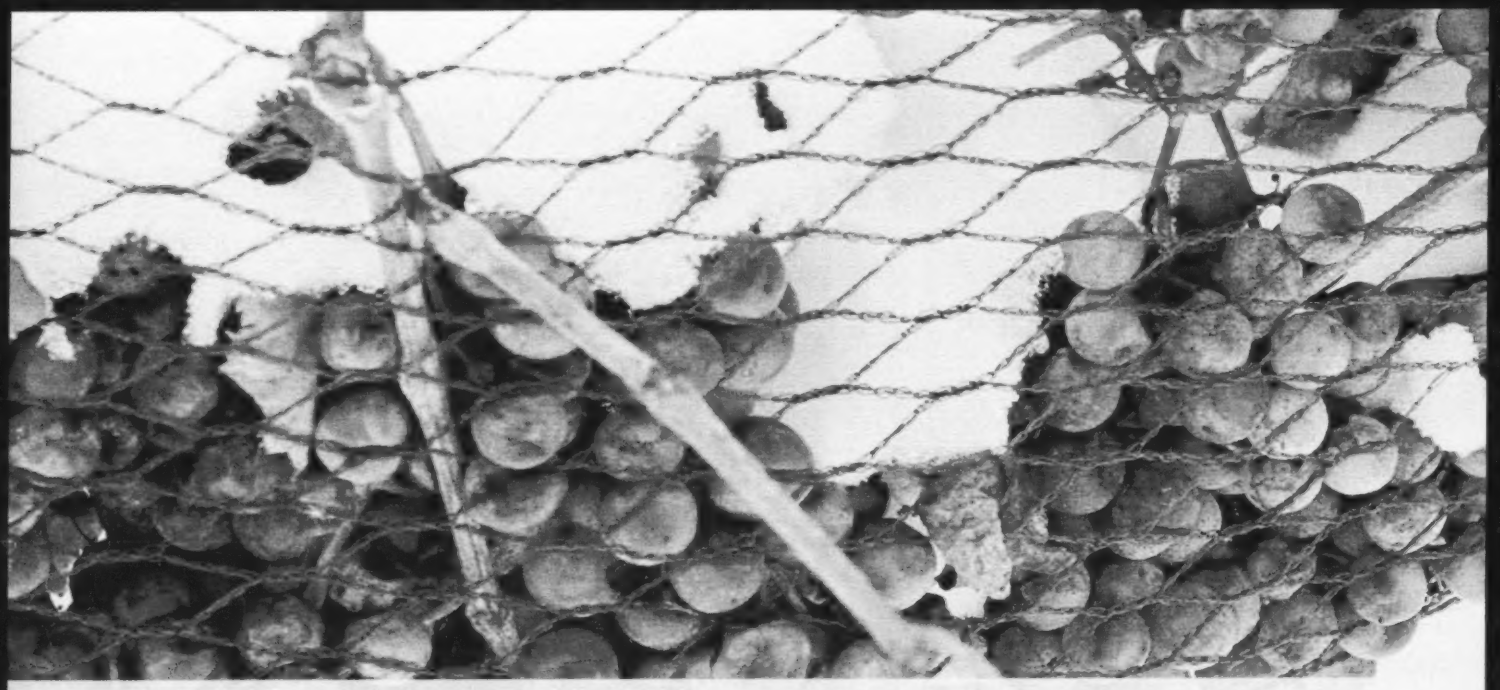
rustic, gamey, berry flavoured wines that are part of Ontario's unique grape heritage

Popular single-varietal table wines

The top four red and white varietals remain the same as in previous years. Whites remained consistent in volume order, with Riesling closing the gap on Chardonnay. Reds however, shifted somewhat with Pinot Noir moving from third to second spot and Baco dropping to fourth from second in the previous year. This table includes the top four varieties used in wines that are labelled with a single grape variety. These wines must contain at least 85% of the stated variety.

Table Wines

	Varietal	Litres	Cases (9L)
White	Chardonnay	2,539,152	282,128
	Riesling	2,232,300	248,175
	Sauvignon Blanc	1,319,272	146,586
	Pinot Gris	1,053,536	117,060
Red	Merlot	1,255,762	139,529
	Pinot Noir	991,543	110,171
	Cabernet Franc	917,819	101,980
	Baco Noir	821,532	91,281

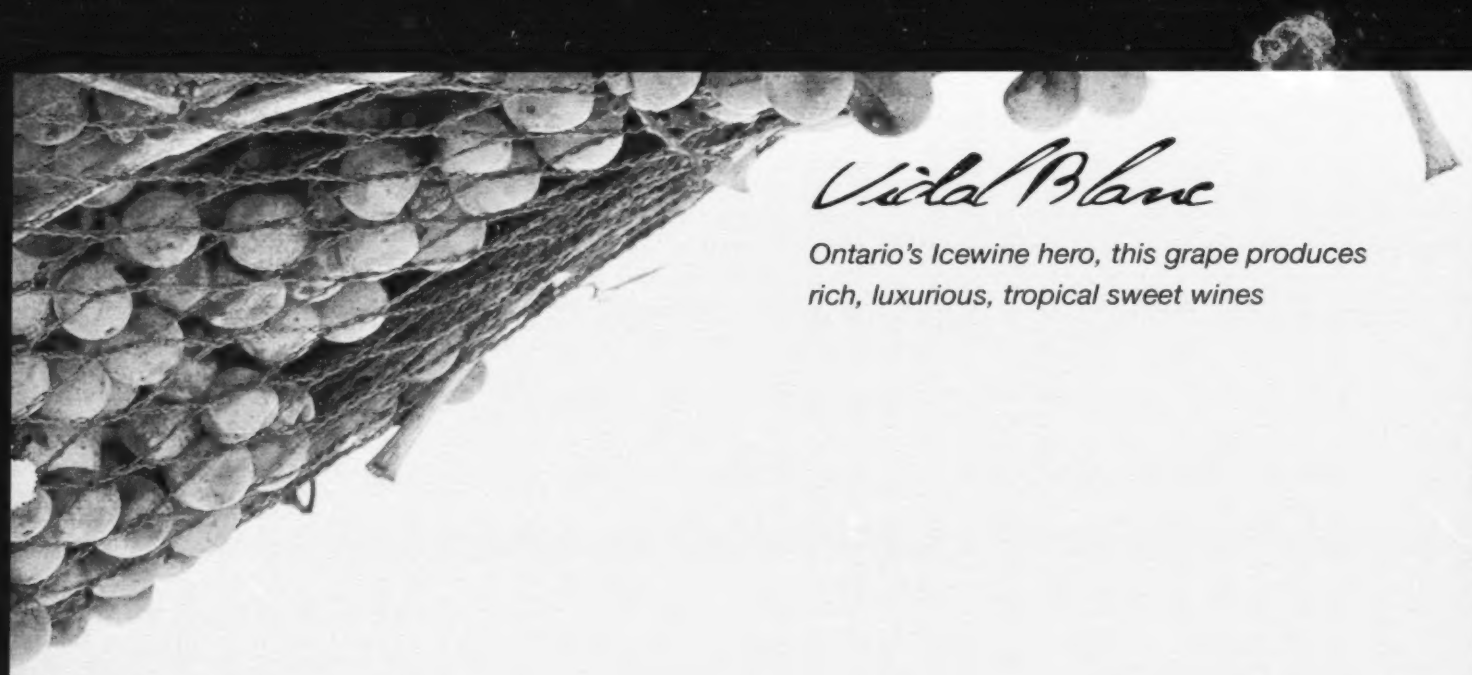


Icewine

Variety	Litres	Cases (9L)
Vidal	437,500	48,611
Cabernet Franc	69,104	7,678
Riesling	50,901	5,656
Cabernet Sauvignon	38,213	4,246
Others	3,800	422
Total	**599,518**	**66,613**

Other Wines

	Litres	Cases (9L)
Late Harvest and Botrytis Affected	147,575	16,397
Fortified and Liqueur wines and Vin de Cure	16,162	1,796
Sparkling wines	459,089	51,010



Vidal Blanc

Ontario's Icewine hero, this grape produces rich, luxurious, tropical sweet wines

VQA Ontario Wine Sales

Year ending March 31, 2013

By Volume

	Litres (2013)	Litres (2012)	% Change
Winery Retail	5,033,210	4,598,247	9.5
Licensees	3,328,209	3,171,750	4.9
LCBO (shipped)	7,555,633	7,320,283	3.2
Outside of Ontario and miscellaneous	1,455,855	1,526,725	-4.6
Total	**17,372,907**	**16,617,005**	**4.5**

By Retail Value

	Retail value ($) (2013)	Retail value ($) (2012)	% Change
Winery Retail	115,788,411	104,454,154	10.9
Licensees	53,675,521	50,010,694	7.3
LCBO (shipped)	116,596,243	110,863,400	5.2
Outside of Ontario and miscellaneous	60,039,441	43,690,831	37.4
Total	**346,099,616**	**309,019,079**	**12.0**

Wine Approvals and Compliance

Every wine that carries a regulated appellation of origin and the VQA certification has completed a rigorous approval process. Once a wine is finished and ready to bottle it is submitted to VQA Ontario for testing and approval. The evaluation includes taste tests, laboratory tests and label reviews to ensure the wine meets quality standards and is labelled according to VQA regulations. Labelling regulations reserve certain terminology for eligible VQA wines and set standards for declaring origin, varietal content, vintage and other attributes. These regulations ensure consumers are not misled with respect to the wine content. Only after having successfully completed all components of this process can a wine receive approval and be released for sale, using regulated terms and descriptions. A range of inspection and audit programs also verify that underlying standards are met.

Activities

Applications for wine approval evaluated – 1675
Number of wines approved for VQA status – 1615

Performance Measures

Wine Approvals
Overall success rate – 96%

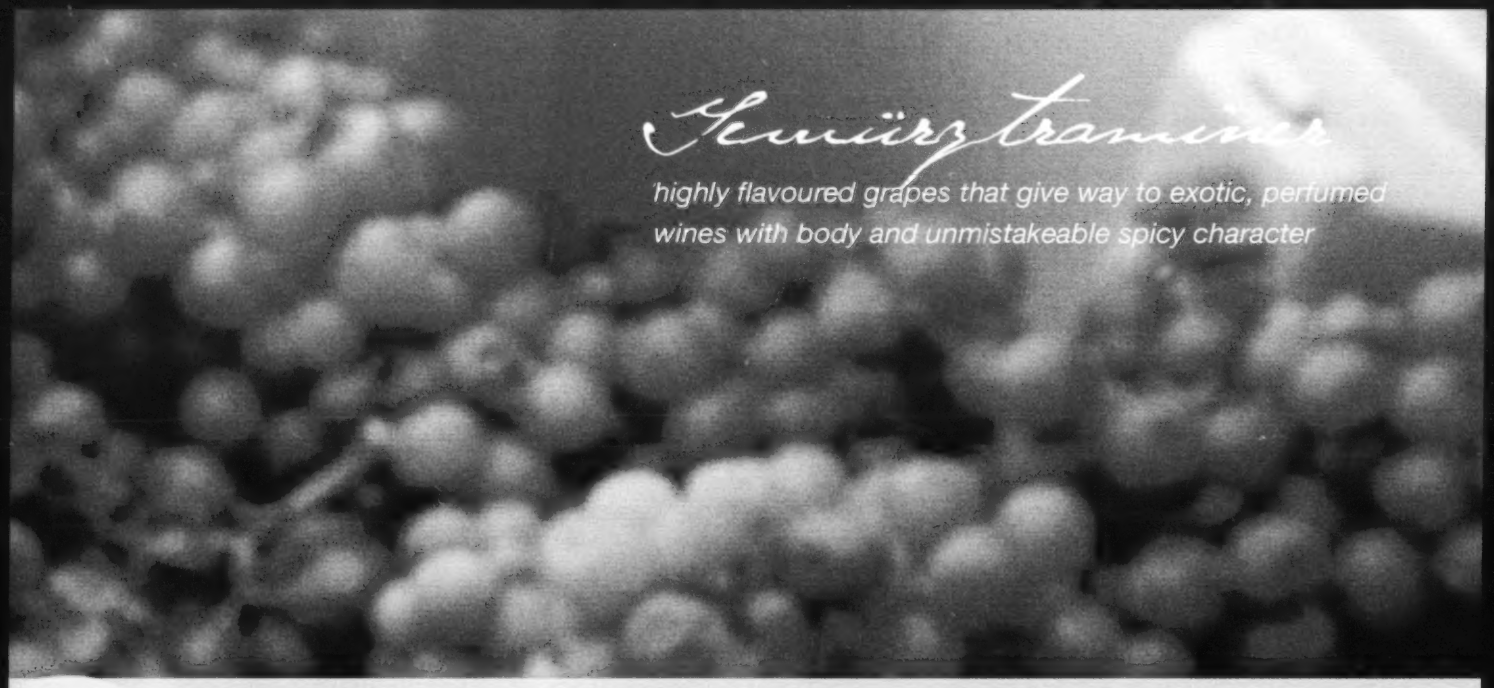
Laboratory analysis
Average time to completion – 13 days
% of tests completed within 15 days – 83%
% of tests completed within 21 day target – 98%
Pass rate at laboratory – 99.4% (final status)

Sensory analysis
Average time to completion – 6 days
% of tests completed within 15 days – 99%
% of tests completed within 21 day target – 100%
Pass rate at sensory panel – 97.6% (final status)

Online query and reporting system uptime – 99.6%
(99.7% during business hours)

Compliance and Enforcement

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. The regulatory process starts with the monitoring of grape quality at harvest through independent sugar testing, and regular audits and inspections related to wine origin and content, wine making processes, record-keeping, labelling and advertising. Once the wine is finished and submitted for VQA approval, taste tests, laboratory tests and label reviews are completed. Only after having successfully completed this process can a wine receive approval and be released for sale, using designated terms and descriptions.


Gewürztraminer
highly flavoured grapes that give way to exotic, perfumed
wines with body and unmistakeable spicy character

Activities

Full on-site audits - 161
Retail store inspections - 180
Investigations - 3
Random testing of approved wines - 32
Warnings and minor corrective orders issued - 36
Compliance orders issued – 3
Charges laid – 4

Performance Measures

Percentage of audits completed with no issues raised – 89%

Percentage of wines found to be compliant during audits - 99%

Percentage of wines found to be compliant during inspections – 98%

Percentage of wines found to be compliant upon random chemical analysis – 97%

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are relatively minor and many potential issues are flagged and corrected before products reach the consumer market. Winery compliance with correction requests is excellent and few infractions require enforcement action to achieve compliance.

Financial Summary

VQA Ontario is funded by its member wineries through sales levies and fees for service. It continues to seek out ways to maximize the efficiency of service delivery, including sharing services with other agencies. VQA Ontario acknowledges the Liquor Control Board of Ontario for its valued assistance and cooperation in providing contracted services that increase VQA Ontario's efficiency in performing its regulatory role.

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2013.

Revenue exceeded expenditures by $118,478 for the year ended March 31, 2013. This reflects a larger than expected growth in revenue from sales levies on VQA wines and some expenses that were less than budgeted. Total revenue was $1,478,874 compared to total expenses of $1,360,396. Net assets carried forward are $647,987 up from $529,509 in 2012. Net assets include restricted funds in the amount of $200,000 that are allocated to a legal contingency fund as well as general operating contingencies.

Revenue for fiscal 2013 was derived primarily from sales levies ($873,298) and approval fees ($442,479).

Major components of the approximately $1.3 million in expenses were wine approvals and quality monitoring ($480,360), public education ($250,000) and employee costs ($376,137).

Kopstick Osher
Chartered Accountants, LLP

Mark Kopstick C.A.
Benjamin Osher C.A.
William Genga B.Comm.

In association with
Reiner Goebel C.A.

Financial Statements

March 31, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Vintners Quality Alliance Ontario

We have audited the accompanying financial statements of Vintners Quality Alliance Ontario which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

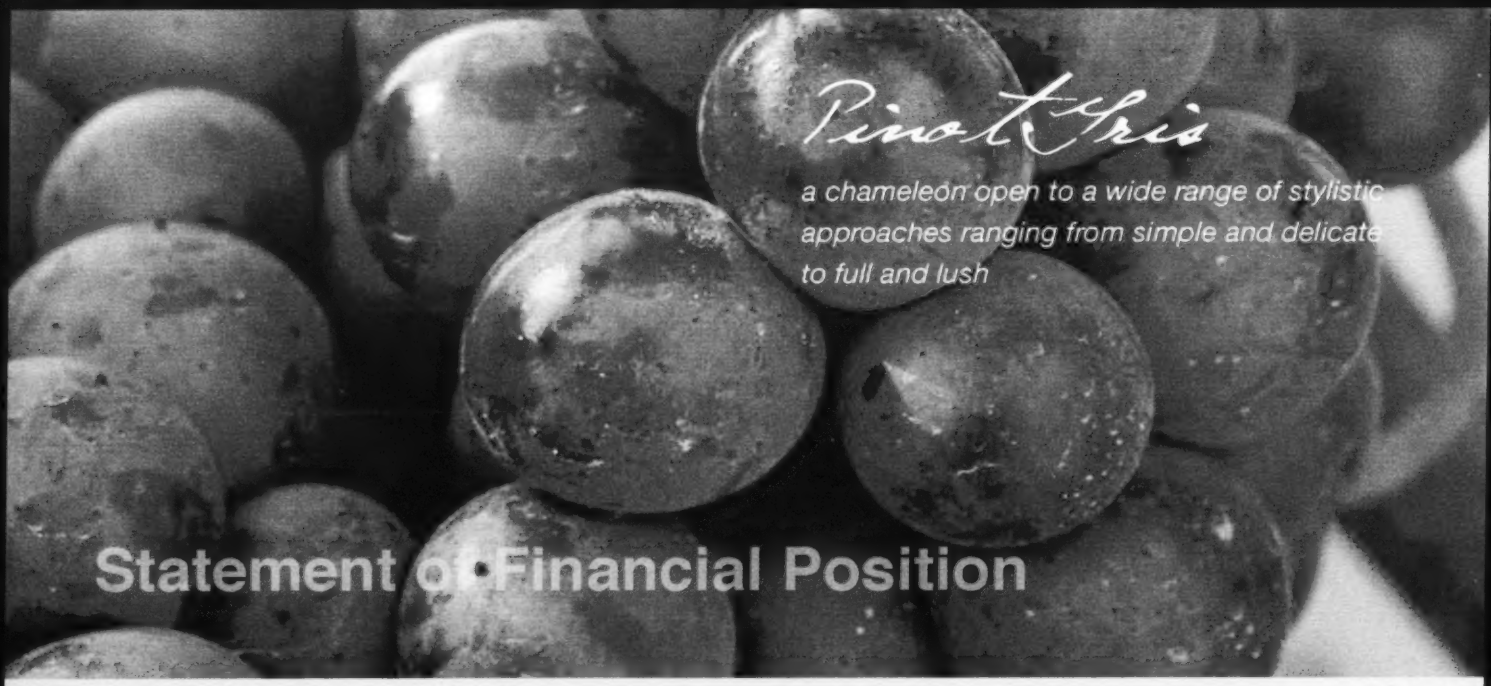
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Vintners Quality Alliance Ontario as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Kopstick Osher

KOPSTICK OSHER
Chartered Accountants, LLP
Licensed Public Accountants

Toronto, Canada
June 5, 2013



Statement of Financial Position

As at March 31, 2013

	March 31, 2013	March 31, 2012	April 1, 2011
ASSETS			
Current			
Cash	$ 288,172	$ 193,188	$ 261,089
Investments - Note 4	409,731	380,170	221,284
Accounts receivable	98,847	86,353	60,216
Prepaid expenses	5,845	8,683	8,072
	802,595	668,394	550,661
Investments - Note 4	105,505	81,799	101,517
Capital - Note 5	3,370	3,183	5,363
Intangible - Note 6	22,151	41,151	57,771
	$ 933,621	$ 794,527	$ 715,312
LIABILITIES			
Current			
Accounts payable and accruals - Note 7	$ 274,267	$ 239,711	$ 243,614
Deferred revenue - Note 8	11,367	25,307	14,812
	285,634	265,018	258,426
NET ASSETS			
Net assets	647,987	529,509	456,886
	$ 933,621	$ 794,527	$ 715,312

The accompanying notes form an integral part of these financial statements

APPROVED BY THE BOARD:

Statement of Changes in Net Assets

For the year ended
March 31, 2013

	Invested in capital and intangible assets	Internally restricted for legal and enforcement fund (note 9)	Unrestricted	March 31, 2013 Total	March 31, 2012 Total	April 1, 2011 Total
Net assets - beginning of year	$ 44,335	$ 200,000	$ 285,174	$ 529,509	$ 456,886	$ 453,610
Excess of revenues over expenses	-	-	118,478	118,478	72,623	3,276
Purchase of capital assets	1,517	-	(1,517)	-	-	-
Purchase of intangible assets	1,400	-	(1,400)	-	-	-
Amortization	(21,730)	-	21,730	-	-	-
Net assets - end of year	$ 25,522	$ 200,000	$ 422,465	$ 647,987	$ 529,509	$ 456,886

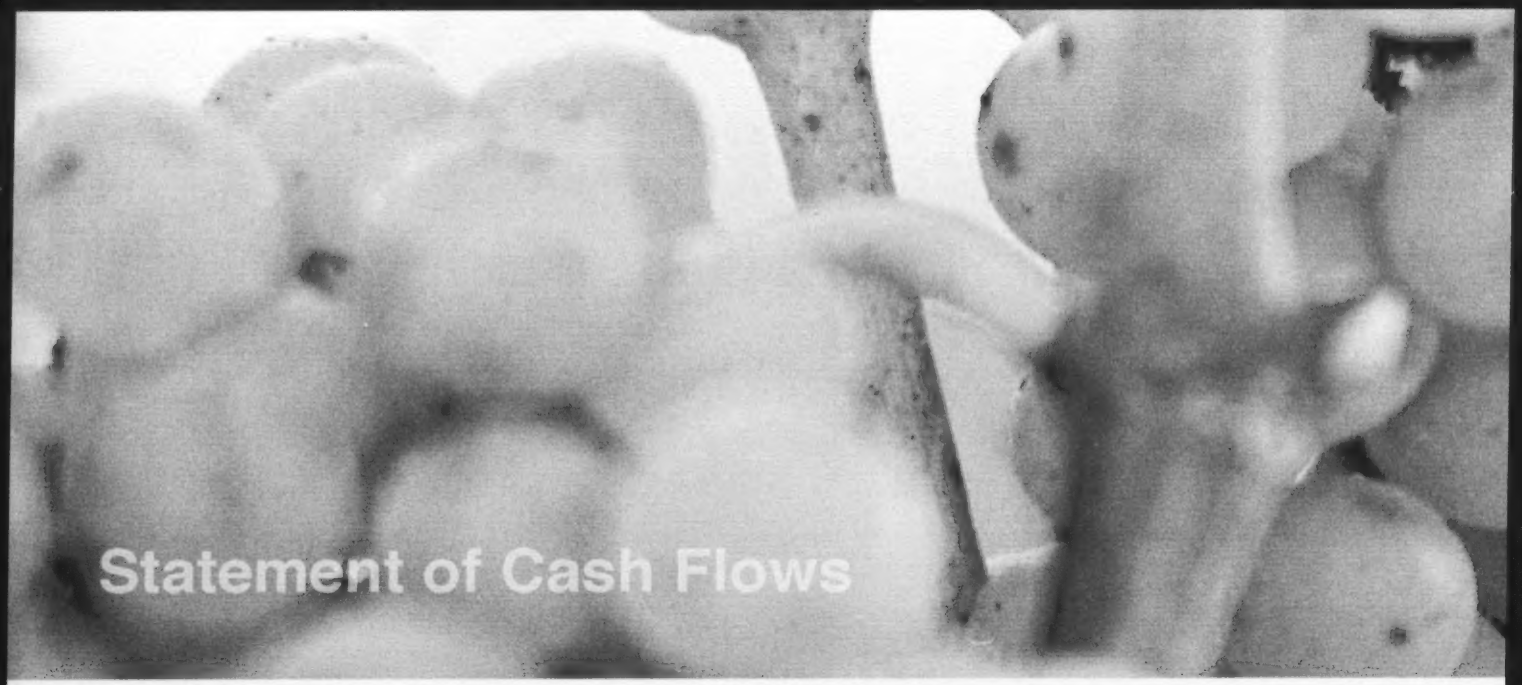
The accompanying notes
form an integral part of
these financial statements

Statement of Operations

For the year ended March 31, 2013

	2013	2012
Revenues		
Membership fees	$ 136,000	$ 133,500
Bottle fees	873,298	808,900
Approval fees	442,479	401,541
Interest income	6,614	9,274
Other income	20,483	19,085
	1,478,874	1,372,300
Expenses		
Salaries and benefits	376,137	364,083
Contracted services	19,840	18,020
Public education	250,000	250,000
Approvals	480,360	437,536
Quality assurance and inspection	19,335	18,138
Strategic planning	11,966	-
Export development and trade	5,145	1,140
Weather monitoring	4,000	4,000
Meetings	5,745	8,268
Travel	4,499	5,489
Rent and occupancy	38,400	38,400
Office and general	24,085	23,861
Printing and mailing	9,910	9,624
Telephone and communications	7,278	7,253
Insurance	17,692	22,106
Professional services	64,274	67,126
Amortization of capital assets	1,330	3,213
Amortization of intangible assets	20,400	21,420
	1,360,396	1,299,677
Excess of revenues over expenses	$ 118,478	$ 72,623

The accompanying notes form an integral part of these financial statements

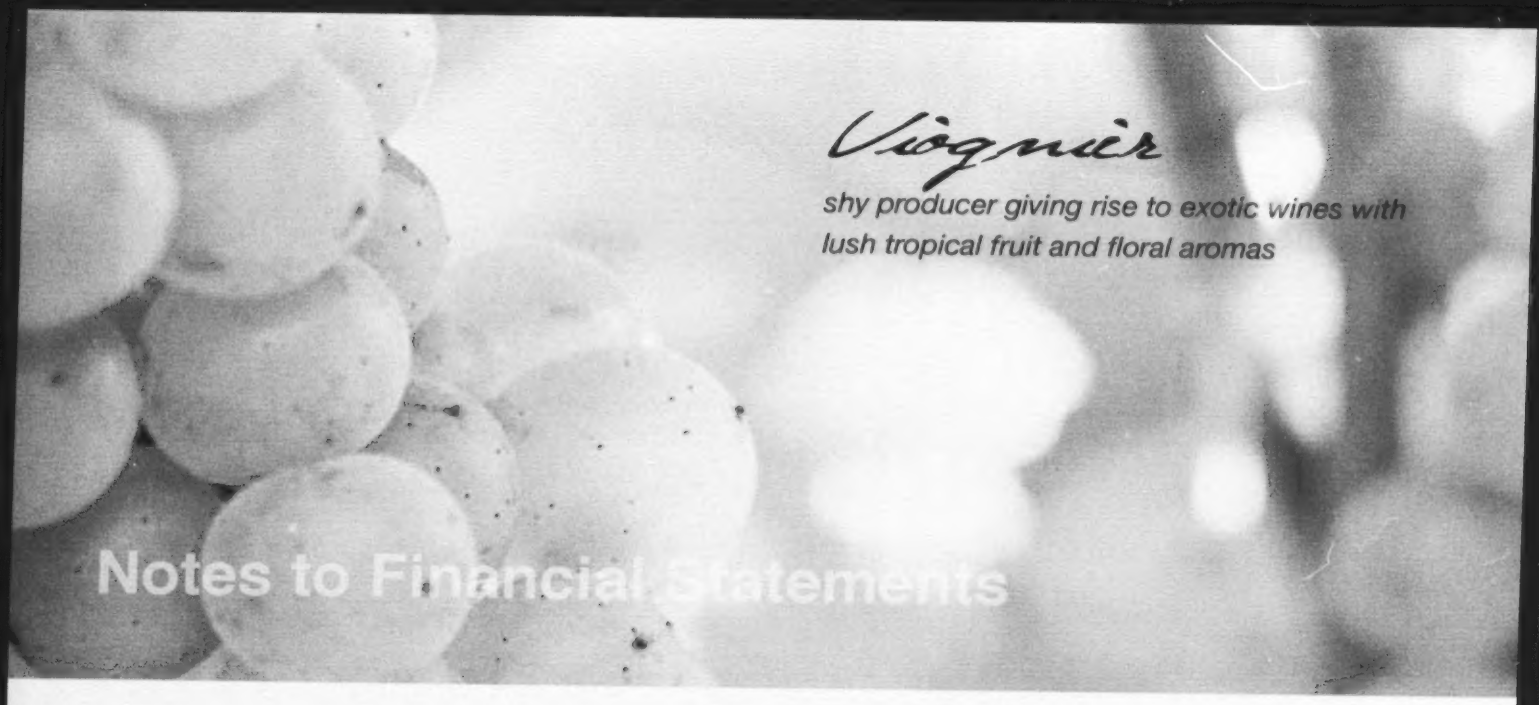


Statement of Cash Flows

For the year ended March 31, 2013

	2013	2012
Cash flows from operating activities		
Excess of revenues over expenses	$ 118,478	$ 72,623
Non-cash items:		
Amortization of capital assets	1,330	3,213
Amortization of intangible assets	20,400	21,420
Interest capitalized on investments	(6,360)	(9,167)
Changes in non-cash working capital		
Increase in accounts receivable	(12,494)	(26,137)
Decrease (increase) in prepaid expenses	2,838	(611)
Increase (decrease) in accounts payable and accruals	34,556	(3,903)
Increase (decrease) in deferred revenue	(13,940)	10,495
	144,808	67,933
Cash flows from investing activities		
Purchase of investments	(429,104)	(353,461)
Proceeds from disposal of investments	382,197	223,461
Purchase of capital assets	(1,517)	(1,034)
Purchase of intangible assets	(1,400)	(4,800)
	(49,824)	(135,834)
Cash flows from financing activities	-	-
Increase (decrease) in cash	94,984	(67,901)
Cash - beginning of year	193,188	261,089
Cash - end of year	$ 288,172	$ 193,188

The accompanying notes form an integral part of these financial statements



Notes to Financial Statements

March 31, 2013

1. Purpose and legal form of the organization

Vintners Quality Alliance Ontario is an independent organization that administers the Vintners Quality Alliance Act, 1999 and its regulations through an administrative agreement with the Ontario government. It establishes, monitors and enforces a system of quality assurance and verification of product origin for wines bearing the VQA logo.

Vintners Quality Alliance Ontario exists as a not-for-profit corporation without share capital. It is not subject to income tax.

2. Adoption of accounting standards for not-for-profit organizations

Effective April 1, 2012, Vintners Quality Alliance Ontario adopted the new accounting standards for not-for-profit organizations (ASNFPO) under Part III of the CICA Handbook - Accounting. These are the Organization's first financial statements prepared in accordance with these accounting standards which has been applied retrospectively. The accounting policies set out in the following significant accounting policies note have been applied in preparing the financial statements for the year ended March 31, 2013, the comparative information presented in these financial statements for the year ended March 31, 2012 and the preparation of an opening statement of financial position at April 1, 2011 (date of transition).

Vintners Quality Alliance Ontario issued financial statements for the year ended March 31, 2012 using Canadian generally accepted accounting principles. The adoption of ASNFPO resulted in presenting intangible assets, which were included in capital assets under previous CGAAP, as a separate line item in the statement of financial position. There is no other impact on the previously reported assets, liabilities and net assets of the Organization.

3. Significant accounting policies

Revenue recognition

Vintners Quality Alliance follows the deferral method of accounting for revenues. All revenues are recognized in the year to which they pertain.

Investments

Investments consist of fixed income term deposits whose term to maturity is greater than three months from the date of acquisition. Fixed income investments maturing within twelve months from year-end are classified as current.

The investments are classified as held to maturity and are recorded at amortized cost as it is management's primary objective to hold investments to maturity.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Financial Statements

3. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at the following annual rates:

Computer equipment	20%
Office furniture and equipment	20%

Intangible assets

Intangible assets consist of computer software and are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at 20%.

Contributed materials and services

The organization receives substantial contributed services from members and others through participation on the Board of Directors and other committees. Because of the difficulty in determining their fair value, such services are not recorded in these financial statements.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

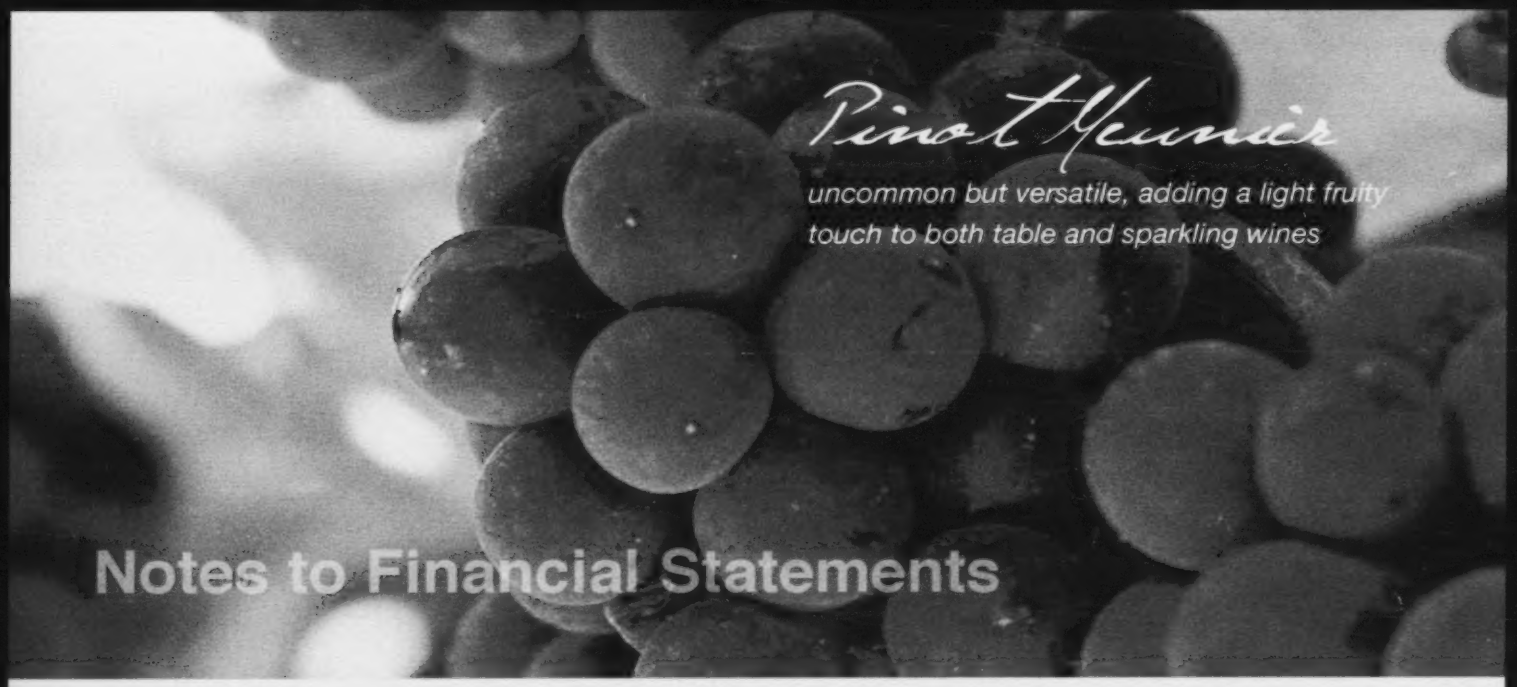
Financial instruments

Financial assets and liabilities are initially recognized at fair value and their subsequent measurement is dependant on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the organization's designation of such instruments.

Cash
Cash is classified as held for trading, which is measured at fair value. Any fair value fluctuations are included in income.

Investments
Investments are classified as held to maturity, which are measured at amortized cost using the effective interest rate method.

Accounts receivable
Accounts receivable are classified as loans and receivables, which are measured at amortized cost using the effective interest rate method.



Notes to Financial Statements

3. Significant accounting policies (continued)

Financial instruments (continued)

Accounts payable and accruals
Accounts payable and accruals are classified as other liabilities, which are measured at amortized cost using the effective interest rate method.

Effective interest rate method
The organization uses the effective interest rate method to recognize interest income or expense for financial instruments.

4. Investments

	Face value	Amortized Cost
CIBC GIC - 2.45%, maturing April 29, 2013	$ 80,000	$ 83,759
CIBC GIC - 1.30%, maturing July 15, 2013	124,127	125,281
CIBC GIC - 1.10%, maturing October 1, 2013	100,000	100,549
CIBC GIC - 0.80%, maturing January 27, 2014	100,000	100,142
CIBC GIC - 1.10%, maturing October 16, 2014	104,977	105,505
Total	509,104	515,236
Less: portion maturing within one year of the year-end date	404,127	409,731
Classified as long-term	104,977	105,505

At March 31, 2012, total investments at face value and amortized cost were $453,961 and $461,969, respectively.

At April 1, 2011, total investments at face value and amortized cost were $309,196 and $322,801, respectively.

5. Capital assets

	Cost	Accumulated Amortization	March 31, 2013 Net Book Value	March 31, 2012 Net Book Value	April 1, 2011 Net Book Value
Computer equipment	$ 19,117	$ 16,414	$ 2,703	$ 3,041	$ 4,941
Office furniture and equipment	9,315	8,648	667	142	422
	$ 28,432	$ 25,062	$ 3,370	$ 3,183	$ 5,363

Notes to Financial Statements

March 31, 2013

6. Intangible assets

	Cost	Accumulated Amortization	March 31, 2013 Net Book Value	March 31, 2012 Net Book Value	April 1, 2011 Net Book Value
Computer software	$ 111,062	$ 88,911	$ 22,151	$ 41,151	$ 57,771

7. Accounts payable and accruals

	March 31, 2013	March 31, 2012	April 1, 2011
Trade payables and accrued liabilities	$ 240,373	$ 230,488	$ 212,920
Payroll taxes	10,296	10,241	10,230
Harmonized sales tax	23,598	(1,018)	20,464
	$ 274,267	$ 239,711	$ 243,614

8. Deferred revenue

Deferred revenue represents membership fees and product approval fees received, which relate to the subsequent year.

9. Net assets internally restricted for legal and enforcement fund

Net assets of $200,000 have been restricted for a specific purpose. They may be used only for enforcing adherence to the regulations of the Vintners Quality Alliance Act.

10. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that Vintners Quality Alliance Ontario would receive or pay to settle a financial asset or financial liability at the reporting date.

The carrying values of cash, investments, accounts receivable and accounts payable approximate their fair values due to their liquidity.

Risk management

Risk management is incorporated into Vintners Quality Alliance Ontario day to day management activities and an annual review of risks is completed by the Board.

Vintners Quality Alliance Ontario has exposure to the following risk associated with its financial instruments.

Semillon
Often a partner with other varieties, bringing luxurious body and supple undertones of honey, lanolin and preserved lemons

Notes to Financial Statements

10. Financial instruments (continued)

Credit risk

The organization maintains cash and investments, with financial institutions, which are in excess of amounts insured by the Canada Deposit Insurance Corporation (CDIC) and the Ontario Deposit Insurance Corporation (ODIC). Management monitors the soundness of these institutions and considers the organization's risk to be negligible.

11. Commitments

VQA Ontario has committed to renew an agreement with the Wine Council of Ontario to provide funding in support of activities to promote the awareness, understanding and use of the VQA appellations in the amount of $250,000, for the next fiscal year.

The organization has a 7 year and 5 month sub-lease with the LCBO effective April 1, 2013 for space it occupies. Yearly rent for the periods April 1, 2013 to August 31, 2018 and September 1, 2018 to August 31, 2020 is $38,400 and $42,000 respectively.

12. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

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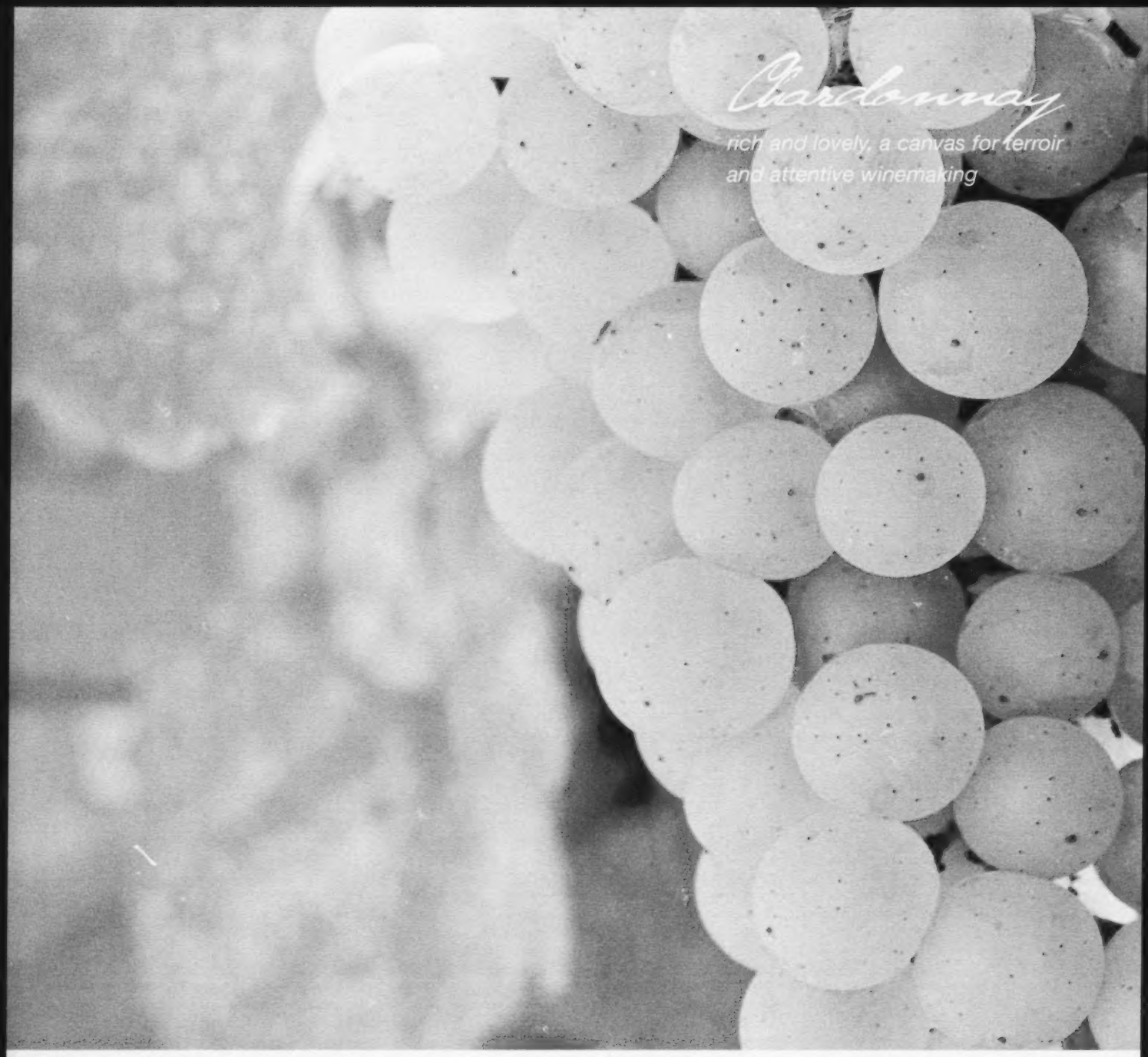

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